

Message Text

UNCLASSIFIED

PAGE 01 SANTIA 03240 01 OF 02 031512Z

ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 MMO-04 DOE-15

SOE-02 AGRE-00 /133 W

-----008167 031626Z /43

R 022020Z MAY 78

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 9071

INFO AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY BUENOS AIRES

AMEMBASSY BRASILIA

UNCLAS SECTION 1 OF 2 SANTIAGO 3240

EO 11652: NA

TAGS: ECRP, ECON, PINT, CI

SUBJ: CHILEAN BALANCE OF PAYMENTS 1977 - 1978

REF: CERP 0102

1. SUMMARY. THE CHILEAN BALANCE OF PAYMENTS FOR 1977 ENDED WITH AN \$ 18 MILLION SURPLUS, THE DIFFERENCE BETWEEN A DEFICIT ON CURRENT ACCOUNT, AND A SURPLUS ON CAPITAL ACCOUNT. THE \$493 MILLION DEFICIT IN THE CURRENT ACCOUNT WAS A CONSEQUENCE OF \$336 MILLION IN INTEREST PAYMENTS AND A \$117 MILLION EXCESS OF IMPORTS OVER EXPORTS. THE CAPITAL ACCOUNT SURPLUS OF \$511 MILLION RESULTED FROM \$846 MILLION IN AMORTIZATIONS OFFSET, HOWEVER, BY CAPITAL INFLOWS TALLING \$1.361 BILLION. THE OVERALL SURPLUS NOTWITHSTANDING, CHILE'S EXTERNAL POSITION REMAINS HIGHLY DEPENDENT ON A SUBSTANTIAL INCREASE IN FOREIGN BORROWING, PUBLIC AND PRIVATE. THE COMBINATION OF HIGH UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SANTIA 03240 01 OF 02 031512Z

DEBT SERVICE PAYMENTS WITH DEPRESSED COPPER PRICES SUGGESTS THAT CHILE WILL BE DEPENDENT ON FOREIGN COMMERCIAL BANKS FOR AT LEAST THE NEXT 36 MONTHS. WHILE THE CURRENT ACCOUNT DEFICIT IS WORRISOME TO CHILE'S INTERNATIONAL BANKERS, THE GOC SEES EXTERNAL SAVINGS (I.E. BANK BORROWING) AS THE ONLY MEANS OF OFFSETTING THE INADEQUATE DOMESTIC CAPITAL FORMATION WHICH IS RETARDING NEW ECONOMIC GROWTH. END SUMMARY.

2. CAPITAL VERSUS CURRENT ACCOUNT, 1977. DESPITE LOW COPPER PRICES, AND A PROJECTED DEFICIT IN EXTERNAL ACCOUNTS, THE BOP FOR 1977 ENDED WITH AN US\$18 MILLION SURPLUS. THE CURRENT ACCOUNT WAS LEFT WITH A US\$493 MILLION DEFICIT, A CONSEQUENCE OF US\$336 MILLION IN INTEREST PAYMENTS AND A US\$117 MILLION EXCESS OF IMPORTS OVER EXPORTS, THIS DEFICIT, HOWEVER, WAS OFFSET BY A CAPITAL ACCOUNT SURPLUS OF US\$511 MILLION RESULTING FROM US\$846 MILLION IN AMORTIZATION US \$4 MILLION IN CHILEAN INVESTMENT ABROAD AND US \$1,361 MILLION IN CAPITAL INFLOWS.

3. 1977 EXPORTS. THESE INCREASED OVERALL BY 5.3 PERCENT DURING 1977. ALTHOUGH COPPER EARNINGS HAD DROPPED BY 6.5 PERCENT OVER THE YEAR BEFORE, NON-TRADITIONAL EXPORTS INCREASED FROM US\$426 MILLION IN 1976 TO US\$608 MILLION 1977, AN INCREASE OF 43 PERCENT. GOVERNMENT ECONOMISTS POINT TO THIS INCREASE AS A JUSTIFICATION FOR THE CONTINUED REALLOCATION OF RESOURCES TOWARDS THOSE ACTIVITIES THAT ENJOY COMPARATIVE ADVANTAGES. THE MOST FAVORED SECTORS ARE AGRICULTURE, WOOD AND PAPER BY-PRODUCTS, WHOSE EXPORTS INCREASED BY 48 PERCENT, 141 PERCENT AND 500 PERCENT RESPECTIVELY DURING 1977.

4. 1977 EXPORTS TO ANDEAN COUNTRIES. A DROP IN EXPORTS TO ANDEAN PACT COUNTRIES WHOSE COMMON MARKET ADVANTAGES CHILE LOST BY ITS WITHDRAWAL IN OCTOBER 1976, WAS NOT AS EXTENSIVE AS HAD BEEN EXPECTED. NON-COPPER EXPORTS TO PERU FELL BY 59 PERCENT AND TO BOLIVIA BY 0.09 PERCENT. THEY INCREASED, HOWEVER, TO VENEZUELA, UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SANTIA 03240 01 OF 02 031512Z

ECUADOR AND COLOMBIA BY 19.5 PERCENT, 19.7 PERCENT AND 17.6 PERCENT RESPECTIVELY.

5. 1977 IMPORTS. GENERAL AND FOODSTUFFS. THE 45.3 PERCENT OVERALL INCREASE IS THE RESULT OF THE 8.6 PERCENT GROWTH IN AGGREGATE DEMAND, AND ALSO OF TARIFF REDUCTIONS. THE AVERAGE TARIFF LEVEL DROPPED FROM 36 PERCENT IN 1976 TO 21 PERCENT IN 1977 AND IS PROJECTED AT 14 PERCENT FOR 1978. THE COMPOSITION OF THE INCREASE IN IMPORTS IS AS SIGNIFICANT, HOWEVER, AS THE TOTAL. FOODSTUFF IMPORTS TOTALING \$327 MILLION IN 1977 INCREASED BY ONLY 2.5 PERCENT OVER THE YEAR BEFORE. OTHERWISE STATED THIS ONCE-MAJOR IMPORT ITEM, AND WHICH IN 1976 REPRESENTED 20 PERCENT OF TOTAL IMPORTS, IN 1977 REPRESENTED ONLY 14 PERCENT. THIS

DECREASE REFLECTS THE SUCCESS OF THE CURRENT RESOURCE ALLOCATION POLICY (AIDED IN 1977 BY NATURAL CONDITIONS WHICH PRODUCED A BUMPER CROP IN WHEAT). THE DECREASE IS ALL THE MORE REMARKABLE WHEN COMPARED TO THE \$695 MILLION, OR 48 PERCENT OF TOTAL IMPORTS, IMPORTED IN 1973, IN TURN REFLECTING THE POLICY FOLLOWED FOR THE PREVIOUS 40 YEARS OF INDUSTRIALIZATION FOR PURPOSES OF IMPORT SUBSTITUTION AT THE EXPENSE OF AGRICULTURE. IN THIS CONNECTION, THE EXPORT OF FOODSTUFFS, WHICH HAD AVERAGED \$24 MILLION PER YEAR

IN THE PERIOD 1965-73, INCREASED TO \$150 MILLION. THE GOAL OF THE GOC IS TO ELIMINATE ALTOGETHER THE DEFICIT IN THE AGRICULTURAL CURRENT TRADE ACCOUNT.

6. 1977 IMPORTS. CAPITAL GOODS. EQUALLY SIGNIFICANT IS THE 45.9 PERCENT INCREASE IN CAPITAL GOODS (EXCLUDING AUTOMOBILES WHICH PRIOR TO 1976 WERE CONSIDERED WITHIN THAT CATEGORY). THIS COULD WELL MEAN A STARTING POINT IN THE RECOVERY OF THE INVESTMENT RATE WHICH HAS BEEN ALARMINGLY DEPRESSED OVER THE CURRENT DECADE. 1977'S INCREASE BY 30 PERCENT OF INVESTMENT IN FIXED CAPITAL IS IMPRESSIVE. THE INVESTMENT/GDP RATIO FOR 1977 OF ONLY 12.02 PERCENT IS NOT.

4. DEBT SERVICE, 1977-78. AMORTIZATION PLUS INTERST OF US\$1,182 UNCLASSIFIED

UNCLASSIFIED

PAGE 04 SANTIA 03240 01 OF 02 031512Z

MILLION ACCOUNTED FOR 54.2 PERCENT OF TOTAL EXPORT EARNINGS. THE HIGH DEBT SERVICING TO EXPORTS RATIO IS THE RESULT OF LARGE DEBT RENEGOTIATIONS CONTRACTED FROM 1970 TO 1975. PAYMENTS ON THIS RENOGOTIATED DEBT STARTED IN 1976. ACCORDING TO CENTRAL BANK PROJECTIONS, DEBT PAYMENTS WILL BEGIN TO DECLINE ONLY BY 1981. DURING 1978, DEBT SERVICING WILL INCREASE TO US\$1,242 MILLION. HOWEVER, THE RATIO IN TERMS OF EXPORTS WILL REMAIN AT THE SAME LEVEL (54.3 PERCENT). THE DEBT OF SERVICE TO EXPORTS RATIO COULD BE LOWERED ONLY BY SIGNIFICANT INCREASE OF COPPER PRICES. THE CENTRAL BANK'S 1978 BOP PROJECTIONS ASSUME HOWEVER, A VERY CONSERVATIVE AVERAGE COPPER PRICE OF USCENT 55/LB.

8. CURRENT ACCOUNT IN 1978. GOC FINANCIAL MANAGERS BELIEVE THAT IMPORTS WILL CONTINUE TO GROW, BUT THE RATE OF GROWTH OF IMPORTS WILL SLOW TO 5.9 PERCENT IN 1978, REFLECTING A SATURATION LEVEL, PARTICULARLY FOR CONSUMER GOODS. TARIFFS ON IMPORTS OF CAPITAL GOODS WERE REDUCED DECEMBER 3, 1977 TO 10 PERCENT, WHILE IMPORT DUTIES FOR NON CAPITAL GOODS WILL BE LOWERED IN STAGES THROUGHOUT 1978-1979 TO A UNIFORM RATE OF 10 PERCENT. THIS DECREASE IS DESIGNED TO FACILITATE THE ADJUSTMENT OF INDUSTRY TO NEW MARKET CONDITIONS. CONSEQUENTLY, CAPITAL GOODS IMPORTS ARE EXPECTED TO INCREASE BY 12.4 PERCENT IN 1978.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 SANTIA 03240 02 OF 02 031613Z

ACTION ARA-14

INFO OCT-01 ISO-00 SP-02 ICA-20 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 MMO-04 DOE-15

SOE-02 AGRE-00 /133 W

-----008738 031626Z /43

R 022020Z MAY 78

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 9072

INFO AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY BUENOS AIRES

AMEMBASSY BRASILIA

UNCLAS SECTION 2 OF 2 SANTIAGO 3240

9. 1978 EXPORTS. THESE ARE PROJECTED AT A LEVEL OF US\$2,286 MILLION, A 4.9 PERCENT INCREASE FROM 1977. WHILE COPPER EXPORT EARNINGS HAVE DRECREASED THEIR RELATIVE WEIGHT IN TOTAL CHILEAN EXPORTS (60 PERCENT IN 1976, 53 PERCENT IN 1977 AND ABOUT 46 PERCENT IN 1978), NON TRADITIONAL EXPORTS (NTE) HAVE INCREASED FROM 21 PERCENT IN 1976 TO 28 PERCENT IN 1977 AND ARE PROJECTED TO REPRESENT A 35 PERCENT OF TOTAL EXPORTS IN 1978. THE 1978 PROJECTION IS BASED ON AN OVERALL 30 PERCENT INCREASE OF NTE, INCLUDING AN EXPECTED GROWTH OF 38.5 PERCENT OF AGRICULTURAL EXPORTS, 50 PERCENT OF FISHERIES, 42.8 PERCENT WOOD AND 49 PERCENT PROCESSED FOOD. THESE PROJECTIONS DO NOT MAKE ANY ALLOWANCE FOR THE POSSIBILITY OF U.S. IMPORT QUOTAS BEING IMPOSED AGAINST CHILEAN COPPER.

10. 1978 IMPORTS. THE PROJECTED IMPORTS LEVEL OF US\$2,433 MILLION AND EXPORT EARNINGS OF US\$2,286 MILLION WILL LEAVE THE BALANCE UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SANTIA 03240 02 OF 02 031613Z

OF TRADE WITH A US\$147 MILLION DEFICIT. COMBINED WITH CAPITAL SERVICING REQUIREMENTS OF US\$426 MILLION, AND OTHER TRANSFERS, THIS WILL RESULT IN AN OVERALL CURRENT ACCOUNT DEFICIT OF US\$593 MILLION.

11. 1978 ECONOMIC GROWTH. SUCH A DEFICIT IS REQUIRED IN ORDER TO ACHIEVE THE GROWTH RATES EXPECTED BY THE GOC. THE 6-8 PERCENT PROJECTED ECONOMIC GROWTH IN 1978 NEEDS AN INVESTMENT LEVEL THAT CANNOT BE REACHED WITH THE CURRENT LEVEL OF DOMESTIC SAVINGS. IN ORDER TO BE ABLE TO USE AVAILABLE FOREIGN FUNDS, THE PROPER COURSE OF ACTION WILL BE TO GENERATE A DEFICIT IN THE CURRENT

ACCOUNT, THUS ALLOWING AN INFLOW OF FOREIGN RESOURCES, WITHOUT CREATING INFLATIONARY PRESSURES.

12. CAPITAL ACCOUNT IN 1978. CONSIDERING CREDITS ALREADY NEGOTIATED, TOTAL CAPITAL INFLOWS IN 1978 ARE PROJECTED AT US\$1,650 MILLION. OF THE TOTAL, MEDIUM AND LONG TERM GUARANTEED LOANS FROM PRIVATE BANKS AND FINANCIAL INSTITUTIONS ARE PROJECTED AT US\$ 977 MILLION (50 PERCENT) SHORT TERM CREDITS US\$192 MILLION (11.6 PERCENT) AND FOREIGN INVESTMENT US\$145 MILLION (8.8 PERCENT). TOTAL DISPOSABLE FUNDS MINUS DEBT AMORTIZATION WILL LEAVE THE CAPITAL ACCOUNT WITH A US\$799 MILLION SURPLUS, MORE THAN OFFSETTING THE CURRENT ACCOUNT DEFICIT AND PUTTING THE OVERALL BOP US\$206 MILLION IN SURPLUS. THE MINISTER OF FINANCE HAS STATED, HOWEVER, THAT THE SURPLUS COULD INCREASE TO ABOUT US\$450 MILLION IF NEW LOAN NEGOTIATIONS, CURRENTLY UNDERWAY, COME TO A SATISFACTORY AGREEMENT.

13. FOREIGN INVESTMENT IN 1978. THOUGH INCREASING, FOREIGN PRIVATE INVESTMENT IN THE NEAR TERM IS NOT EXPECTED TO CONTRIBUTE SIGNIFICANTLY TO MEETING CHILE'S FINANCIAL REQUIREMENTS. IN 1978 FOREIGN INVESTMENT IS PROJECTED AT US\$145 MILLION UP FROM THE US\$19 MILLION 1977. THE 1978 FIGURE INCLUDES US\$85 UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SANTIA 03240 02 OF 02 031613Z

MILLION INVESTED BY EXXON IN THE PURCHASE OF THE COPPER MINE LA DISPUTADA.

14. FOREIGN EXCHANGE RESERVES - GROSS. CHILE HAS TRADITIONALLY BEEN UNDER THE 5 MONTHS IMPORT LEVEL OF FOREIGN EXCHANGE RESERVES CONSIDERED ABOUT RIGHT FOR A COUNTRY VULNERABLE TO CHANGES IN THE INTERNATIONAL MARKET. SINCE 1976, A CONTINUED BALANCE OF PAYMENTS SURPLUS HAS RESULTED IN GROWING RESERVES. BY DECEMBER 1977, THESE STOOD AT A LEVEL OF US\$842.8 MILLION, REPRESENTING 4.4 MONTHS OF IMPORTS. ACCORDING TO GOC PROJECTION, THESE RESERVES BY DECEMBER 1978 SHOULD GROW TO WHERE THEY EQUAL 4.9 MONTHS OF IMPORTS.

15. FOREIGN EXCHANGE RESERVES - NET. NET FOREIGN EXCHANGE RESERVES (GROSS RESERVES MINUS SHORT TERM LIABILITIES OF THE MONETARY SYSTEM, INCLUDING IMF CREDITS) TOTALLED A NEGATIVE US \$77.5 MILLION AT THE END OF DECEMBER 1977 REPRESENTING AN INCREASE IN THE NET RESERVE POSITION OF US\$18 MILLION WITH RESPECT TO DECEMBER 31, 1976 (NEGATIVE US\$95.9 MILLION). SINCE 1972 CHILEAN NET FOREIGN EXCHANGE RESERVES HAVE BEEN NEGATIVE. THE INDISCRIMINATE RECOURSE TO THE PARIS CLUB IN THE PAST HAS RESULTED IN A CONSIDERABLE SHORT TERM INDEBTEDNESS, KEEPING NET RESERVES AT PERMANENTLY NEGATIVE LEVELS. OWING TO THE STRUCTURE OF THE FOREIGN DEBT, THIS SITUATION IS NOT LIKELY TO CHANGE BEFORE 1980. THIS DOES NOT MEAN, HOWEVER, THAT AT CERTAIN PERIODS POSITIVE NET FOREIGN EXCHANGE POSITIONS

MAY NOT BE OBSERVED. IN FACT, ON FEBRUARY 17, 1978, GROSS
RESERVES REACHED US\$1,004 MILLION LEAVING NET RESERVES
AT A POSITIVE LEVEL OF US\$137 MILLION.

BALANCE OF PAYMENTS (MILLIONS OF US DOLLARS)

(SOURCE - CENTRAL BANK)

1976 1977 1978

ESTIMATE PROJECTION

I. CURRENT ACCOUNT 144 -493 -593

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 SANTIA 03240 02 OF 02 031613Z

TRADE BALANCE 489 -117 -147

EXPORTS (FOB) 2070 2180 2286

COPPER 1238 1158 1063

OTHER 832 1022 1223

IMPORTS (CIF) -1581 -2297 -2433

FOODSTUFFS -319 -327 -344

PETROLEUM -308 -417 -466

CAPITAL GOODS -344 -502 -564

OTHER -610 -1051 -1059

FINANCIAL SERVICES -327 -359 -426

PROFIT REMITTANCES -17 -23 -30

INTEREST PAYMENTS -310 -336 -396

SHORT-TERM -30 -35 -46

MEDIUM AND LONG-TERM -280 -301 -350

NON-FINANCIAL SERVICES (NET) -28 -35 -40

OTHER TRANSFERS (NET) 10 18 20

II. AUTONOMOUS CAPITAL FLOWS 318 511 799

CAPITAL INFLOWS 998 1361 1650

SHORT-TERM CREDITS 108 270 192

MEDIUM AND LONG-TERM CREDITS 785 1022 1283

PRIVATE REPATRIATIONS 100 50 30

FOREIGN INVESTMENT 5 19 145

CAPITAL OUTFLOWS -680 -850 -851

AMORTIZATION OF MEDIUM AND

LONG-TERM DEBT -680 -846 -846

CHILEAN INVESTMENT ABROAD - -4 -5

UNCLASSIFIED

UNCLASSIFIED

PAGE 05 SANTIA 03240 02 OF 02 031613Z

ERRORS AND OMISSIONS	-7	-	-
CHANGES IN NET RESERVES	455	18	206
LANDAU			

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CERP 0102, BALANCE OF PAYMENTS, ECONOMIC REPORTS, TRADE DATA, ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 02 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SANTIA03240
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780188-0985
Format: TEL
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197805102/aaaadiwg.tel
Line Count: 338
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6d30d593-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2517511
Secure: OPEN
Status: NATIVE
Subject: CHILEAN BALANCE OF PAYMENTS 1977 - 1978
TAGS: ECRP, ECON, PINT, ETRD, CI
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/6d30d593-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014